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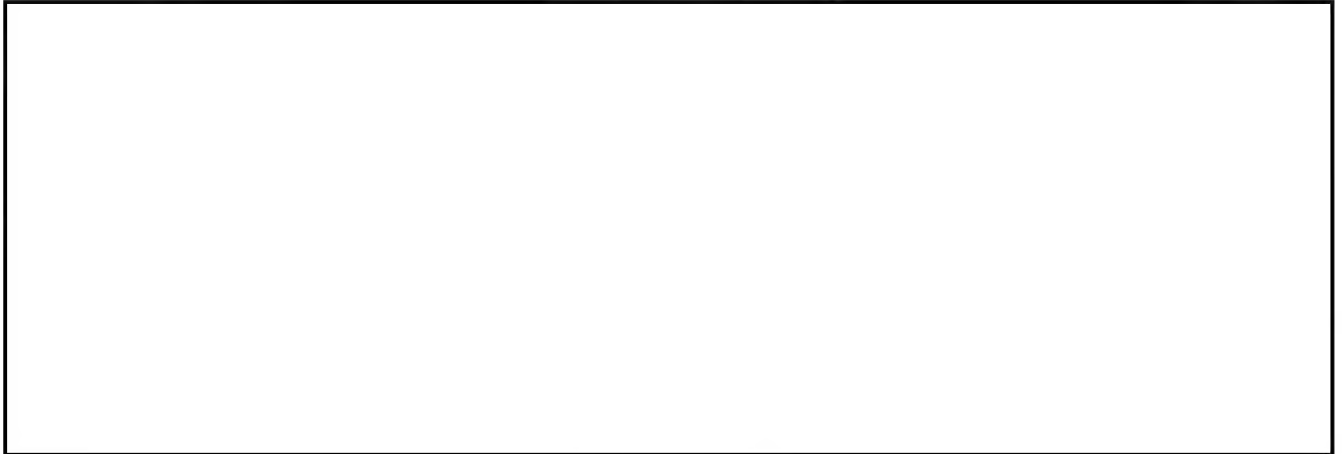
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133. The Great Leap Backward

The communique of the Eighth Plenary Session of the CCP Central Committee reportedly held in Lushan, Kiangsi from 2 to 16 August was made public on 26 August. The communique admits to incompetent planning, erroneous statistics and weaknesses in the economy. It proposes large scale retrenchment in economic planning for 1959, admitting, for example, that 1958 goals for grain production were too high by 35%. It adds that considerable opposition to the commune system still exists in China in the form of "right opportunist ideas" which "overemphasize the seriousness of certain defects which occurred in the 'great leap forward' and its commune movements." This charge appears to have been directed not only at cadres on the working level, but at elements of top leadership and gives evidence of dissension within China's ruling hierarchy. Finally, the communique demands that the party overcome rightist tendencies, "put politics in command, fully mobilize the masses, go all out, and strive to fulfill and overfulfill this year's leap forward plan." Although there is evidence that the Chinese Communist economy is badly in need of adjustment and although planning and production errors promise untold hardships for the Chinese people, there is no present evidence that the economy is a failure or is likely to founder because of admitted errors.

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134. International Development Association

The United States Government will propose the creation of a new international loan agency, to be known as the International Development Association (IDA), during the meeting of the Governors of the World Bank in Washington in late September. Multilateral aid extended through international organizations is highly appealing to underdeveloped countries since it avoids the political overtones implicit in bilateral aid. The existing organization, the IBRD, makes loans only for economically sound projects and requires repayment in hard currencies. Since the underdeveloped countries need large amounts of capital and find it difficult to borrow money on "bankers terms", it has long been desirable to create an international institution which would fill this gap. In 1949 a Special United Nations Fund for Economic Development (SUNFED) was proposed which would provide low interest, long term loans for development purposes. Although supported by many of the underdeveloped countries, some of Western Europe, and the Soviet bloc, the U. S. and the U. K. have consistently opposed it. It is feared that SUNFED would not provide adequate control over the use of money and that the U. S. Congress would not support a meaningful U. S. contribution. IDA, which would be administered by the World Bank and not the UN, is designed to assure a more effectively administered method of providing cheap development loans allowing long term repayments partially in soft currencies and low interest rates. During late 1957 and 1958, the leveling out of the world's economic activity has temporarily shifted the U. S. balance of payments to a debtor position. There has been a resulting gold flow to Europe which has considerably strengthened the current dollar and gold reserves of the European countries. This increased monetary stability has opened the possibility of more extensive European participation in long term lending to underdeveloped countries. The creation of IDA will shift some of the available European funds into long term loans.

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135. Crisis in Sino-Indian Relations

Tension between India and the Chinese Peoples Republic (CPR) has increased steadily since the Tibetan revolt in March 1959. The Chicoms have declared Indian and Tibetan currency illegal in Tibet, harassed Indian traders, and "firmly suggested" Indian pilgrims stay out of Tibet. All actions are violations of the 1954 trade agreement between India and the CPR. Reports that Chicom troops were massing on the Bhutan border coupled with propaganda statements emanating from Lhasa that the Bhutanese, Sikkimese and Ladakhis "must again be made a united family under China" brought forth Prime Minister Nehru's statement that India would defend Bhutan and Sikkim against invasion. On 25 August a detachment of Chicom soldiers invaded the Subansiri Division of the Northeast Frontier Agency (NEFA) and captured the Indian post at Longju. Nehru's angry reaction to this incursion followed by the announcement that Indian defense forces would man the entire border was received enthusiastically by the Indian people. On 7 September Nehru submitted to Parliament a white paper revealing the deterioration of relations between India and the C-I-R since 1954 despite the facade of friendly coexistence during this period. Chicom border violations relate to Chicom "cartographic aggression" wherein 30,000 square miles of Indian territory are shown as belonging to the CPR. India has officially protested the inaccuracy of the Chicom maps. The McMahon Line is firmly recognized by India as the border between Tibet and India. The CPR has never formally ratified the agreement (1914) establishing the Line. However, Nehru stated that when Chou En-Lai visited India in 1954, he had given Nehru to understand that he agreed to the Line. Border incidents along the Himalayan frontier have been occurring for the past nine years and probably have been intensified at this time because the CPR wishes to prevent Indian influence in Tibet. The CPR's evasiveness and bellicosity in settling border disputes is illustrated by her negotiations with Burma and her 4 September note to Nehru denying Chicom aggression in NEFA and accusing India of a border violation in the same area. India's current problems with the CPR on the northern frontier may encourage India and Pakistan to adjust their outstanding differences, most important of which are the Kashmir and Indus waters disputes.

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136. European Cooperation and Integration

The Post-World War II movement towards the integration of Europe has culminated in the formation of the European Economic Community (EEC) and the associated Coal and Steel Community (CSC) and EURATOM. Recent developments on the European scene have revealed the fragility of these organizations before the forces of nationalism. The CSC has been faced with the task of resolving the coal glut in Europe. Its High Authority recommended that production controls be established and import quotas be fixed to relieve the pressures from excess coal production which was particularly serious in Belgium where lags in closing down unprofitable mines contribute to overproduction. This recommendation of the High Authority was turned down by the CSC Council primarily at the instigation of the French and Germans. Although there would have been technical difficulties in enforcing the High Authority's recommendations and although a general program of controls is contrary to the advantages of a free market, the decision was a distinct setback to the cause of European integration. The smaller countries fear this is an example of a growing tendency for the submergence of their interest to those of the larger countries. The Ruhr industrialists are not particularly enthusiastic about the Common Market (EEC), siding with the general position of Erhard that a larger free trade area with less supranational overtones would be superior. Adenauer continues ardently to favor integration. The French, returning to their traditional nationalism, are somewhat equivocal over the Common Market. The French Premier Debre has long been an opponent of the integrationist movement. The final factor is the formation of the grouping known as the Outer Seven: the UK, the three Scandinavian countries, Portugal, Switzerland, and Austria. This group hopes to associate itself with the Common Market through some form of Free Trade Area. Such proposals were previously rejected by the French, who have little to lose economically by the exclusion of the Outer Seven. The Germans on the other hand, have extensive economic interests with the Seven and there is considerable pressure for arriving at some satisfactory relationship between the two groupings.

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A three-day meeting of the Central Treaty Organization Ministerial Council (CENTO officially became the new name of the Baghdad Pact on 19 August 1959) will open in Washington on 7 October. The Council Meeting--scheduled at the January 1959 Ministerial Council meeting in Karachi, long before the Eisenhower-Khrushchev exchange visits were arranged--will occur between Khrushchev's visit to the U. S. and Eisenhower's return visit to the Soviet Union, probably to commence the second or third week of October. It is possible that the CENTO Council meeting might be interpreted in Moscow and elsewhere as a U. S. manifestation of the "position of strength" policy which Communist propaganda for many years has condemned as the principal deterrent to an easing of Cold War tensions. The Baghdad Pact, an outgrowth of the 24 February 1955 Turkish-Iraqi Treaty of Mutual Cooperation, has been a major target of Communist propaganda against those aspects of U. S. foreign policy manifested by overseas military bases and military pacts such as NATO and SEATO. Moscow's decrease in propaganda against the Baghdad Pact-CENTO nations following Iraq's withdrawal from the Pact in no way implies any diminution in its antipathy toward such pacts. Four of the five original member nations--Turkey, Iraq, Iran and Pakistan--comprised the "norther tier" of nations defensively arrayed against possible Soviet military aggression. Iraq's withdrawal following Quasim's 1958 coup d'etat resulted in the transfer of the organization's headquarters to Ankara. Great Britain is the only non-Middle East nation with membership in CENTO. The U. S. while not a member, participates in three of CENTO's four committees, notably the military, economic, and countersubversion committees. The U. S. also provides some personnel for the international staff. In addition to military aid, the U. S. has provided \$27.67 million to various economic projects sponsored by the organization. Despite considerable pressures from CENTO members the U. S. does not intend to join CENTO because the Middle East Doctrine and bilateral pacts with the Middle East members of CENTO afford all the U. S. support that formal U. S. membership would provide. CENTO in its military aspects, has a senior planning staff, but there is no unified command structure as in NATO. The agenda for the Ministerial Council meeting has not been announced, but is not expected to feature other than normal CENTO economic and military affairs.

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